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JOSEPH RETZ RAMSER

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AN ABSTRACT OF A THESIS

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
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Aug 27, 1930 AC

SOME ASPECTS OF LONG TERM DEBT FINANCING IN AGRICULTURE DURING THE YEARS 1920-1928

The dissertation of which this is an abstract is an economic and statistical study dealing with the farm mortgage loan activities of the life insurance companies and the Federal Farm Loan System during the last decade.

In the preparation of this study, the Annual Reports of the Federal Farm Loan Board, the Annual Proceedings of the Life Insurance Presidents, government documents and information gathered by means of questionnaire, were used as primary source material. A large collection of periodical literature furnished a valuable background of secondary source information.

Although the life insurance companies are an important source of agricultural credit, their farm loan activities have never been studied except in a very general manner.

There has been a great amount written on the Federal Farm Loan System; most of these works, however, deal with the period from 1917 to 1925. There have been no contributions since that time excepting brief articles found in the periodical literature. It is not the purpose of this dissertation to treat exhaustively of the organization and operation of the system which has been so completely covered in earlier works. This study has touched lightly upon this well-worn ground and has stressed the eventful years since 1925 which have had considerable influence upon the operation of the Federal Farm Loan System.

The body of this study is divided into six chapters:

Chapter I, the *Introduction,* intends to furnish the reader with a general approach to the field of long-term agricultural credit. It deals briefly with the agitation and legislation leading up to the passage of the Federal Farm Loan Act in 1916.

Chapter II, *Farm Real Estate Values and Mortgage Financing,* discusses the problem of farm land values and develops some statistical relations between Farm Real Estate values and the Farm Mortgage debt. The statistics presented in this chapter are used in connection with the discussion in later chapters.

Chapter III, *The Federal Land Banks,* describes the operations of the Federal Land banks and the Farm Loan Associa-

tions during the period under consideration, giving particular attention to bond selling operations in relation to the money market.

Chapter IV, *The Joint Stock Land Banks*, is concerned with the operations of the Joint Stock Land banks. Their organization and methods of carrying on business is contrasted with the Federal Land banks. Attention is given to the method and results of land appraisals, the number of foreclosures and the receiverships of the Joint Stock Land banks.

Chapter V, *Life Insurance Companies and the Farm Mortgage Debt*, presents statistics and discussion concerning the farm loan operations of life insurance companies. Much of the data in this chapter was collected by use of the questionnaire method.

Chapter VI presents the *Conclusions* of this study.

The successful operation of the Federal Farm Loan System depends upon the ability of the land banks to raise their working capital in accordance with the regulations laid down by the Federal Farm Loan Board. The Board sets the maximum loaning rate and in order to show a profit the land banks must be able to borrow sufficiently below this rate so as to cover their operating expense and leave them a margin. If the long-term loaning rates in the money market are so high as to preclude the possibility of a sufficient margin between the borrowing and the lending rate, the land banks have their principal source of funds cut off.

During the latter part of 1928 and throughout the year of 1929 the land bank bonds have encountered high interest rates in the money market. This fact alone would not have been so important had it not been combined with unsatisfactory internal conditions in the land bank system. If the bonds of the land banks had continued to enjoy the confidence of the investing public, their tax exempt feature would have made possible their sale upon much more favorable terms. Because of the unfavorable rumors that were prevalent in the latter part of 1926 concerning the Joint Stock Land banks, and the receiverships of 1927, the bonds of the Joint Stock Land banks depreciated greatly in market value. Prior to this period the bonds of both land bank systems had been selling above par practically without exception. The general decline in the price of the Joint Stock Land bank bonds in 1927 took place while the movement of bond prices in general was upward. The market for Federal Land bank bonds held firm throughout 1927 but declined more rapidly than the general bond market after that year. There were no particular difficulties in the Federal Land bank system during this time to which such a decline might have been attributed, but it was true that many investors made no discrimination between the securities of the two systems and the difficulties in the Joint Stock Land banks were, accordingly, reflected in the market for Federal Land bank bonds.

The most serious trouble in the Federal Farm Loan System can be traced to the Joint Stock Land Banks. In the light of experience it seems rather clear that the Federal Farm Loan Act might have served the requirements of agriculture better by creating a single system of banks modeled along the lines of the more successful Federal Land banks. A single system of this kind built upon the idea of joint liability would have been able to prevent some of the happenings which have proven so embarrassing to the Farm Loan System.

The farm loan operations of the life insurance companies are not directly effected by conditions in the money market. The nature of their business is such that it is not necessary for their securities to possess a high degree of marketability; therefore, the farm loan has constituted a large portion of their total investments. Since 1924, however, there has been a tendency for the farm loan to decline in relative importance as a means of investment by life insurance companies. In the main, this decline may be attributed to three factors: first, the unsatisfactory conditions in the agricultural industry; second, the competition of the Federal and Joint Stock Land banks; third, the fact that the general decline in bond prices during 1928 and 1929 has made it possible to buy other types of securities on an attractive basis.

It is apparent from a study of the last decade that one of the most vital factors which has effected the farm loan activities of the Federal Farm Loan System and life insurance companies is the decline in real estate values which has taken place during

this period. The Federal Farm Loan System has been further handicapped by conditions existing within the component organizations which have been due, at least in part, to poor management.

In conclusion, it can be said that various adverse conditions, both of an internal and external nature, have operated to curtail the extention of agricultural credit by the institutions which have been examined during the period under study.

VITA

Joseph Retz Ramser was born at Newton, Illinois. His secondary education was completed in 1920 with graduation from Kinmundy (Illinois) High School. He entered the University of Illinois in the fall of 1920 and received his bachelor's degree in General Business in 1924.

In 1924-1925 he served as a half-time assistant in the Department of Business Organization and Operation at the University of Illinois. He received the degree of Master of Science in finance in June, 1925. The following year he was appointed a half-time assistant in the Department of Economics. In the year of 1926-27, he served as full-time research assistant in the Bureau of Business Research. After resigning from the Bureau of Business Research in the fall of 1927, he took a position with Hoagland, Allum and Company, investment bankers, in New York City, where he served in the capacity of economist until his resignation in the spring of 1929. At that time he returned to the University of Illinois to write his thesis for the degree of Doctor of Philosophy in Economics. During the year of 1928-1929, he was a full-time assistant in the Department of Economics.

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